

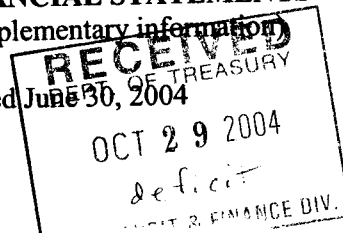
City of Montague

61-2010

REPORT ON FINANCIAL STATEMENTS

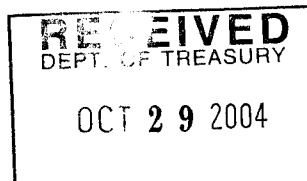
(with required supplementary information)

Year ended June 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.



Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Montague	LOCAL AUDIT & FINANCE DIV.	County Muskegon
Audit Date 6/30/04	Opinion Date 8/27/04	Date Accountant Report Submitted to State: 11/1/04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Brickley DeLong, PLC			
Street Address 500 Terrace Plaza	City Muskegon	State MI	ZIP 49440
Accountant Signature		Date	

ELECTED OFFICIALS

APPOINTED OFFICIALS

City Manager John French

City Clerk.....Melinda O'Connell

Finance Officer/TreasurerSusanne Krawczyk

Police Chief.....Robert Rought

Utility ClerkLaurie Robillard

DPW Superintendent Tom Kroll

Administrative Assistant.....Matt Miller

City of Montague

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Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements for the City of Montague as of June 30, 2004. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

The City of Montague as a Whole

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City of Montague's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City of Montague include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include the campground, launch ramp, water and sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Montague, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City of Montague maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, and Park Reserve Fund, all of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City of Montague has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, campground, launch ramp and sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service fund to charge the costs of equipment used to the individual funds. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for Water, Campground, Launch Ramp and Sewer funds, of which Water and Sewer are major funds. The internal service fund is presented in its own column in the proprietary funds financial statements.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund and Major Streets Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

Government-wide Financial Analysis**City of Montague's Net assets**

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets as of June 30, 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, comparisons to fiscal 2003 are not available.

	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 1,906,170	\$ 1,415,889	\$ 3,322,059
Capital assets	<u>3,424,628</u>	<u>6,897,287</u>	<u>10,321,915</u>
Total assets	5,330,798	8,313,176	13,643,974
Long-term liabilities outstanding	330,849	1,282,048	1,612,897
Other liabilities	<u>174,340</u>	<u>466,658</u>	<u>640,998</u>
Total liabilities	<u>505,189</u>	<u>1,748,706</u>	<u>2,253,895</u>
Net assets:			
Invested in capital assets, net of related debt	2,978,807	5,241,535	8,220,342
Restricted	386,308	226,489	612,797
Unrestricted	<u>1,460,493</u>	<u>1,096,446</u>	<u>2,556,939</u>
Total net assets	<u>\$ 4,825,608</u>	<u>\$ 6,564,470</u>	<u>\$11,390,078</u>

The City of Montague's combined total assets increased approximately 13% from a year ago, increasing from \$12,055,824 to \$13,643,974. This increase was due in part to modest increases in most funds.

With regard to liabilities, the City had a net increase of approximately 2.2% from a year ago, increasing from \$2,205,152 to \$2,253,895. This was due in largely to an increase in deferred revenue from DuPont and Occidental Chemical.

The City also realized a 15.3% increase in net assets, increasing from \$9,877,519 to \$11,390,078 from fiscal year 2003 to fiscal year 2004. Several capital grants contributed to the increase, including the Old Channel Trail infrastructure project, township water project and bike trail extension.

Ongoing water projects, involving the looping of the distribution system in Montague and White River townships as well as the search for an additional production well, are financed entirely from an escrow fund with monies from DuPont and Occidental Chemical.

Sanitary sewer main was constructed on Hancock Street between Cook Street and Whitbeck Road to serve the new Woodhaven Estates subdivision as well as other yet to be developed residential parcels within this project area. Private developers contributed over \$35,000 toward this \$99,571 project.

The DDA continued repaying the General Fund for monies borrowed to complete the Spring Street streetscape project in 2003.

The Hart-Montague Bicycle Trail was extended between Dowling Street and Old Channel Trail, and a new trailhead restrooms facility was built off the east end of Spring Street. The majority of the funds for this project came from a Michigan Department of Transportation Enhancement Grant.

The design and construction of the new, Cullen Memorial Little League Fields was a major project with a bottom line of approximately a quarter million dollars. Many area service groups, organizations and charitable foundations donated significantly toward the cost of the concession/restrooms building.

Total removal and reconstruction of Old Channel Trail between Church Street and Williams Street, including curb and gutter, asphalt, sidewalk, storm drainage and water main improvements totaled almost one million dollars and was financed by a combination of MDOT Rural Task Force grant funds blended with dollars from the Water Fund, Major Street Fund and the General Fund.

City of Montague's Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2004. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 333,036	\$ 1,017,287	\$ 1,350,323
Operating grants and contributions	308,975	37,011	345,986
Capital grants and contributions	778,730	39,812	818,542
General revenues:			
Property taxes	1,218,684	-	1,218,684
Grants and contributions not restricted to specific programs	230,720	-	230,720
Other	<u>83,813</u>	<u>30,155</u>	<u>113,968</u>
Total revenues	2,953,958	1,124,265	4,078,223

	Governmental Activities	Business-type Activities	Total
Expenses:			
General government	\$ 514,616	\$ -	\$ 514,616
Public safety	694,800	-	694,800
Public works	318,954	-	318,954
Community and economic development	833	-	833
Culture and recreation	117,882	-	117,882
Interest on long-term debt	19,457	-	19,457
Sewer	-	417,896	417,896
Water	-	365,216	365,216
Boat launching ramp	-	63,320	63,320
Campground	-	52,689	52,689
Total expenses	<u>1,666,542</u>	<u>899,121</u>	<u>2,565,663</u>
Increase in net assets before transfers	1,287,416	225,144	1,512,560
Transfers	<u>45,000</u>	<u>(45,000)</u>	<u>-</u>
Increase in net assets	1,332,416	180,144	1,512,560
Net assets - July 1, 2003	<u>3,465,396</u>	<u>6,384,326</u>	<u>9,849,722</u>
Net assets - June 30, 2004	<u>\$4,797,812</u>	<u>\$6,564,470</u>	<u>\$11,362,282</u>

The budget was closely monitored and amendments were made to keep expenses in line with revenues throughout the year.

The City realized a savings of over \$20,000 by making a significant change to the co-payment for prescription drugs.

Business Type Activities

The Water and Sewer Funds are the City's primary business activities. Water is provided for most, but not all, of Montague's residents and businesses, as well as a limited number of customers who live in targeted areas of Montague Township and White River Township. The customers from the two townships are billed a doubled, per thousand gallon commodity rate, which is paid by DuPont and Occidental Chemical. Most City of Montague water customers are also connected to the sanitary sewer, which is collected locally and then piped to the Muskegon County Wastewater Treatment Facility some 24 miles away.

The Montague Municipal Boat Launch was dredged with a Department of Natural Resources grant that reimbursed the City for seventy-five cents on a dollar expended. This project totaled \$49,349.

The City's Trailway Campground continues to be a successful venture, generating revenues well beyond the operational expenses. These 'profits' are then returned to the General Fund to repay the original acquisition expense.

Financial analysis of the Government's funds

As stated earlier in this discussion and analysis, the City of Montague uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At fiscal year ending June 30, 2004, the City's governmental funds reported a combined unreserved fund balance of \$987,527, of which \$580,950 is in the General Fund. The Parks Reserve fund had an unreserved fund deficit of \$24,034. The Park Reserve deficit was due to expenditures for which the federal grant reimbursement had not yet been requested. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to 1) pay for next year's appropriations (\$3,058), 2) pay debt service and advances (\$151,171), 3) reserve for long-term notes receivable (\$115,074), 4) pay capital purchases and liquidate inventories and prepaids (\$309,170) and 5) reserve for perpetual care (\$164,522).

The General Fund pays for a significant percentage of the City's governmental services, the Police Department, Library, Parks, Cemetery and City Hall Administration. Fund balance decreased in the General Fund by \$89,411. This decrease occurred because the General Fund transferred \$449,565 to other funds, including \$240,000 to Major Streets to help fund the Old Channel Trail infrastructure project, and \$166,859 to the Park Reserve to help fund the Little League field improvements. Although the City received approximately \$25,000 less state shared revenue this year, the City's property tax base increased and expired Industrial Facilities Tax exemptions helped the City to realize approximately \$126,800 more property tax revenues. Expenditures were controlled in anticipation of the State reductions in State revenue sharing payments. The Park Reserve Fund revenues increased by donations toward the concession/restrooms building at the new Little League field. Fund balances increased by \$88,542.

During the fiscal year the City made only minor amendments to its original budgets of the General Fund and the Major Streets Fund.

Proprietary funds. The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net assets of the Sewer fund decreased by \$863 primarily because costs increased to a greater extent than revenues. Net assets of the Water fund increased by \$145,946 because that fund actually reduced its costs and increased its revenues with a rate increase and increased customer base.

Debt Administration

The City refinanced bonded indebtedness for past Water and Sewer improvements. In doing so, the City was able to reduce the annual payment obligation on these loans, while the remaining duration of this debt remains the same.

Economic Factors and Next Year's Budget and Rates

The City of Montague's 2004-05 budget calls for a quarter mil decrease in the City Operating Millage, from 17 mills to 16.75 mills. Water and Sewer commodity rates were left unchanged from 2003-04, as were daily, weekly, monthly, and seasonal rates at the City's Trailway Campground, and the daily and season permits at the Municipal Boat Launch. Despite the millage decrease, the City anticipates an increase in total property tax collections as the City's taxable value continues to increase due in part to the uncapping of value for homes sold. Other factors that will contribute to this taxable value increase include new homes built in the Woodhaven Estates and Pleasant Grove Estates subdivisions, and substantial investment at the Hates Lemmerz Corporation.

Not unlike 14 other Muskegon County municipalities, the City of Montague anticipates an increase in sewer charges from Muskegon County Wastewater due to a discount given to Sappi Fine Paper in Muskegon in an attempt to locally retain this important employer. The City will need to take a close look at, and likely revise, sewer charges to its customers to minimize the impact on retained earnings.

Anticipating continued cuts in State Shared Revenue, the City's 2004-05 budget reflects another \$18,000 reduction from fiscal year 2003. The City also budgeted for other unforeseen expenses and/or revenue reductions by earmarking \$29,907 in the General Fund for contingencies.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of The City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-893-1155. Montague City Hall, located at 8778 Ferry Street, Montague, MI 49437 – is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

BRICKLEY DeLONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

August 27, 2004

Honorable Mayor and Members
of the City Council
City of Montague
Montague, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague as of and for the year ended June 30, 2004, which collectively comprise the City of Montague's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montague's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated August 27, 2004, on our consideration of the City of Montague's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the City of Montague has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of June 30, 2004.

BRICKLEY DeLONG

Honorable Mayor and Members
of the City Council
August 27, 2004
Page 2

The management's discussion and analysis and budgetary comparison information on pages i through viii and 36 through 40, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montague's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brickley DeLong, PLC

City of Montague
STATEMENT OF NET ASSETS
June 30, 2004

ASSETS

	Primary Government		Component Units	
	Governmental activities	Business-type activities	Downtown Development Authority	Tax Increment Finance Authority
CURRENT ASSETS				
Cash and investments	\$ 1,366,094	\$ 973,170	\$ 619	\$ 21,127
Receivables	9,584	161,066	-	305,000
Internal balances	(3,698)	3,698	-	-
Due from other governmental units	145,582	7,779	-	117,396
Inventories	-	43,687	-	-
Prepaid items	87,384	-	-	-
Advances to component units	141,710	-	-	-
Total current assets	1,746,656	1,189,400	619	443,523
RESTRICTED ASSETS				
230,040	226,489	-	-	-
NONCURRENT ASSETS				
Capital assets, net	3,304,702	6,607,935	-	-
Bond issue costs, net	-	57,891	-	-
Access rights, net	-	231,461	-	-
Special assessments	4,852	-	-	-
Note receivable	115,074	-	-	-
Total noncurrent assets	3,424,628	6,897,287	-	-
Total assets	5,401,324	8,313,176	619	443,523

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable and accrued expenses	108,212	25,761	-	3,107
Due to other governmental units	18,964	-	-	-
Customer deposits	-	22,381	-	-
Deferred revenue	-	312,245	-	-
Bonds, capital leases and contracts, due within one year	45,895	97,718	-	-
Accrued interest, due within one year	1,269	-	-	-
Compensated absences, due within one year	-	8,553	-	-
Total current liabilities	174,340	466,658	-	3,107
NONCURRENT LIABILITIES				
Bonds, capital leases and contracts, less amounts due within one year	280,000	1,268,682	-	-
Compensated absences, less amounts due within one year	78,646	13,366	-	-
Advances from primary government	-	-	-	141,710
Total noncurrent liabilities	358,646	1,282,048	-	141,710
Total liabilities	532,986	1,748,706	-	144,817
NET ASSETS				
Invested in capital assets, net of related debt	2,978,807	5,241,535	-	-
Restricted for:				
Repairs and replacement	221,786	216,789	-	-
Debt service	-	9,700	-	-
Perpetual care	164,522	-	-	-
Unrestricted	1,503,223	1,096,446	619	298,706
Total net assets	\$ 4,868,338	\$ 6,564,470	\$ 619	\$ 298,706

The accompanying notes are an integral part of this statement.

City of Montague
STATEMENT OF ACTIVITIES
For the year ended June 30, 2004

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary Government			Component Units	
					Governmental activities	Business-type activities	Total	Downtown Development Authority	Tax Increment Finance Authority
Primary government									
Governmental activities									
General government	\$ 514,616	\$ 92,043	\$ -	\$ 322,573	\$ (100,000)	\$ -	\$ (100,000)	\$ -	\$ -
Public safety	694,800	151,579	1,327	-	(541,894)	-	(541,894)	-	-
Public works	318,954	87,880	307,648	383,281	459,855	-	459,855	-	-
Community and economic development	833	-	-	-	(833)	-	(833)	-	-
Culture and recreation	117,882	1,534	-	72,876	(43,472)	-	(43,472)	-	-
Interest on long-term debt	19,457	-	-	-	(19,457)	-	(19,457)	-	-
Total governmental activities	<u>1,666,542</u>	<u>333,036</u>	<u>308,975</u>	<u>778,730</u>	<u>(245,801)</u>	<u>-</u>	<u>(245,801)</u>	<u>-</u>	<u>-</u>
Business-type activities									
Sewer	417,896	396,544	-	-	-	(21,352)	(21,352)	-	-
Water	365,216	506,019	-	39,812	-	180,615	180,615	-	-
Boat launching ramp	63,320	36,052	37,011	-	-	9,743	9,743	-	-
Campground	52,689	78,672	-	-	-	25,983	25,983	-	-
Total business-type activities	<u>899,121</u>	<u>1,017,287</u>	<u>37,011</u>	<u>39,812</u>	<u>-</u>	<u>194,989</u>	<u>194,989</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 2,565,663</u>	<u>\$ 1,350,323</u>	<u>\$ 345,986</u>	<u>\$ 818,542</u>	<u>(245,801)</u>	<u>194,989</u>	<u>(50,812)</u>	<u>-</u>	<u>-</u>
Component units									
Downtown Development Authority	\$ -	\$ -	\$ -	\$ -	-	-	-	-	-
Tax Increment Finance Authority	367,353	-	-	248,646	-	-	-	-	(118,707)
Total component units	<u>\$ 367,353</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248,646</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(118,707)</u>
General revenues					1,218,684	-	1,218,684	-	216,283
Property taxes					230,720	-	230,720	-	-
Grants and contributions not restricted to specific programs					51,342	22,376	73,718	11	1,195
Investment income					40,798	7,779	48,577	-	-
Other					(7,052)	-	(7,052)	-	-
Special item—loss on sale of asset					45,000	(45,000)	-	-	-
Transfers					1,579,492	(14,845)	1,564,647	11	217,478
Total general revenues, special items, and transfers					1,333,691	180,144	1,513,835	11	98,771
Change in net assets					3,534,647	6,384,326	9,918,973	608	199,935
Net assets at July 1, 2003					\$ 4,868,338	\$ 6,564,470	\$ 11,432,808	\$ 619	\$ 298,706
Net assets at June 30, 2004									

The accompanying notes are an integral part of this statement.

City of Montague
BALANCE SHEET
Governmental Funds
June 30, 2004

	General Fund	Major Street	Park Reserve	Other governmental funds	Total governmental funds
ASSETS					
Cash and investments	\$ 542,162	\$ 155,989	\$ -	\$ 530,641	\$ 1,228,792
Receivables	9,436	-	5,000	115,074	129,510
Due from other governmental units	81,366	28,967	-	10,836	121,169
Prepaid items	77,086	-	-	10,298	87,384
Advances to component units	141,710	-	-	-	141,710
Restricted assets	-	-	-	221,786	221,786
Total assets	<u>\$ 851,760</u>	<u>\$ 184,956</u>	<u>\$ 5,000</u>	<u>\$ 888,635</u>	<u>\$ 1,930,351</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 5,817	\$ 9,855	\$ 18,452	\$ 19,848	\$ 53,972
Retainage payable	-	-	10,582	-	10,582
Accrued liabilities	22,913	2,278	-	16,274	41,465
Due to other governmental units	18,966	-	-	-	18,966
Deferred revenue	4,317	-	-	-	4,317
Total liabilities	52,013	12,133	29,034	36,122	129,302
Fund balances					
Reserved for:					
Appropriations	-	-	-	3,058	3,058
Prepaid items	77,086	-	-	10,298	87,384
Debt service	-	-	-	9,461	9,461
Advances	141,710	-	-	-	141,710
Notes receivable	-	-	-	115,074	115,074
Replacement	-	-	-	180,616	180,616
Perpetual care	-	-	-	164,522	164,522
Designated for:					
Long-term planning	-	-	-	41,170	41,170
Employee benefits	-	-	-	70,526	70,526
Unreserved	580,951	172,823	(24,034)	257,788	987,528
Total fund balances	<u>799,747</u>	<u>172,823</u>	<u>(24,034)</u>	<u>852,513</u>	<u>1,801,049</u>
Total liabilities and fund balances	<u>\$ 851,760</u>	<u>\$ 184,956</u>	<u>\$ 5,000</u>	<u>\$ 888,635</u>	<u>\$ 1,930,351</u>

The accompanying notes are an integral part of this statement.

City of Montague
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2004

Total fund balance—governmental funds	\$ 1,801,049
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Amounts reported for governmental activities in the Statement of Net Assets
 are different because:

Capital assets used in governmental activities are not financial resources and
 are not reported in the governmental funds.

Cost of capital assets

\$ 3,603,944

Accumulated depreciation

(626,499)

2,977,445

Certain revenues that do not provide current financial resources are not
 reported in the governmental funds

28,730

Internal service funds are used by management to charge the costs of equipment used to
 individual funds. The assets and liabilities of the internal service funds are included in
 governmental activities in the statement of net assets.

455,760

Long-term liabilities in governmental activities are not due and payable in the current period
 and are not reported in the governmental funds.

Bonds payable

(315,000)

Compensated absences

(78,377)

(393,377)

Accrued interest in governmental activities is not reported in the governmental funds.

(1,269)

Net assets of governmental activities in the Statement of Net Assets

\$ 4,868,338

The accompanying notes are an integral part of this statement.

City of Montague
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 Governmental Funds
 For the year ended June 30, 2004

	General Fund	Major Street	Park Reserve	Other governmental funds	Total governmental funds
REVENUES					
Property taxes	\$ 1,218,684	\$ -	\$ -	\$ -	\$ 1,218,684
Licenses and permits	15,576	-	-	63,208	78,784
Intergovernmental revenues	-	359,038	48,463	-	407,501
Federal	230,720	233,870	-	73,778	538,368
State	330,980	-	-	-	330,980
Local	65,221	29	-	181,251	246,501
Charges for services	7,752	-	-	-	7,752
Fines and forfeitures	29,752	1,414	111	17,301	48,578
Investment earnings	32,206	-	20,250	750	53,206
Other					
Total revenues	1,930,891	594,351	68,824	336,288	2,930,354
EXPENDITURES					
Current	456,675	-	-	-	456,675
General government	558,506	-	-	90,948	649,454
Public safety	72,187	93,916	-	139,431	305,534
Public works	833	-	-	-	833
Community and economic development	110,232	-	-	-	110,232
Culture and recreation	35,239	11,437	-	4,560	51,236
Other governmental functions	-	-	-	30,000	30,000
Debt service	-	-	-	18,205	18,205
Principal	-	-	-	8,461	8,461
Interest and fees	396,169	640,456	275,788	-	1,320,874
Capital outlay	1,629,841	745,809	275,788	291,605	2,943,043
Total expenditures	301,050	(151,458)	(206,964)	44,683	(12,689)
Excess of revenues over (under) expenditures					
OTHER FINANCING SOURCES (USES)					
Operating transfers in	59,105	240,000	166,859	48,705	514,669
Operating transfers out	(449,565)	-	-	(20,104)	(469,669)
Total other financing sources (uses)	(390,460)	240,000	166,859	28,601	45,000
Net change in fund balances	(89,410)	88,542	(40,105)	73,284	32,311
Fund balances at July 1, 2003	889,157	84,281	16,071	779,229	1,768,738
Fund balances at June 30, 2004	\$ 799,747	\$ 172,823	\$ (24,034)	\$ 852,513	\$ 1,801,049

The accompanying notes are an integral part of this statement.

City of Montague
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
 For the year ended June 30, 2004

Net change in fund balances—total governmental funds:		\$ 32,311
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		28,730
Governmental funds report outlays for capital assets as expenditures in the Statement of Activities; these costs are depreciated over their estimated useful lives.		
Depreciation expense	\$ (78,382)	
Capital outlay	<u>1,320,874</u>	1,242,492
Proceeds from the sale of fixed assets are reported as revenues in the governmental funds; proceeds are netted against net book value in the Statement of Activities and a net resulting gain or loss is recorded.		(7,052)
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		30,000
Increases in the compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		(3,665)
Internal service funds are used by management to charge the costs of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities.		<u>10,875</u>
Change in net assets of governmental activities		<u>\$ 1,333,691</u>

The accompanying notes are an integral part of this statement.

City of Montague
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2004

	Business-type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Sewer	Water	Other enterprise funds	Total	
ASSETS					
CURRENT ASSETS					
Cash and investments	\$ 565,469	\$ 313,796	\$ 93,905	\$ 973,170	\$ 137,304
Accounts receivable	74,076	86,990	-	161,066	-
Due from other funds	9,333	15,168	-	24,501	-
Due from other governmental units	7,779	-	-	7,779	-
Inventories	-	43,687	-	43,687	-
Total current assets	656,657	459,641	93,905	1,210,203	137,304
RESTRICTED ASSETS	168,253	58,236	-	226,489	8,254
NONCURRENT ASSETS					
Capital assets, net	-	54,845	290,422	345,267	-
Land and improvements	5,835,652	3,149,214	3,951	8,988,817	-
Water and sewer systems	624,380	36,748	116,344	777,472	67,811
Buildings	174,655	25,031	-	199,686	765,097
Equipment and furniture	(2,619,469)	(1,001,521)	(82,317)	(3,703,307)	(505,651)
Less accumulated depreciation	4,015,218	2,264,317	328,400	6,607,935	327,257
Capital assets, net	231,461	-	-	231,461	-
Access rights, net of amortization	35,097	22,794	-	57,891	-
Bond issue costs, net of accumulated amortization	4,281,776	2,287,111	328,400	6,897,287	327,257
Total noncurrent assets	5,106,686	2,804,988	422,305	8,333,979	472,815
Total assets					
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	8,375	9,029	1,358	18,762	432
Accrued expenses	2,379	4,523	97	6,999	800
Customer deposits	-	1,901	20,479	22,380	-
Due to other funds	15,168	9,333	-	24,501	-
Deferred revenue	500	311,745	-	312,245	-
Bonds, capital leases and contracts, due within one year	82,718	15,000	-	97,718	10,895
Compensated absences, due within one year	2,841	5,546	167	8,554	960
Total current liabilities	111,981	357,077	22,101	491,159	13,087
NONCURRENT LIABILITIES					
Bonds, capital leases and contracts, less amounts due within one year	728,682	540,000	-	1,268,682	-
Compensated absences, less amounts due within one year	4,157	8,939	270	13,366	270
Total noncurrent liabilities	732,839	548,939	270	1,282,048	270
Total liabilities	844,820	906,016	22,371	1,773,207	13,357
NET ASSETS					
Invested in capital assets, net of related debt	3,203,818	1,709,317	328,400	5,241,535	316,362
Restricted for:					
Replacement	163,753	53,036	-	216,789	8,254
Debt service	4,500	5,200	-	9,700	-
Unrestricted	889,795	131,419	71,534	1,092,748	134,842
Total net assets	\$ 4,261,866	\$ 1,898,972	\$ 399,934	6,560,772	\$ 459,458
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				3,698	
Total net assets per government-wide financial statements				\$ 6,564,470	
The accompanying notes are an integral part of this statement.					

City of Montague
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended June 30, 2004

	Business-type Activities- Enterprise Funds				Governmental Activities- Internal Service Fund
	Sewer	Water	Other enterprise funds	Total	
REVENUES					
Intergovernmental revenues - state	\$ -	\$ -	\$ 37,011	\$ 37,011	\$ -
Charges for services	396,544	506,019	114,724	1,017,287	160,940
Other	7,779	-	-	7,779	-
Total operating revenues	404,323	506,019	151,735	1,062,077	160,940
OPERATING EXPENSES					
Administration	75,091	88,381	22,856	186,328	-
Operations	144,611	160,920	81,322	386,853	81,145
Depreciation and amortization	136,260	75,270	12,386	223,916	66,642
Total operating expenses	355,962	324,571	116,564	797,097	147,787
Operating income (loss)	48,361	181,448	35,171	264,980	13,153
NONOPERATING REVENUES (EXPENSES)					
Investment income	13,457	7,539	1,380	22,376	2,764
Interest expense	(62,681)	(43,041)	-	(105,722)	(1,344)
Total nonoperating revenue (expenses)	(49,224)	(35,502)	1,380	(83,346)	1,420
Income (loss) before contributions and transfers	(863)	145,946	36,551	181,634	14,573
Capital contributions	-	39,812	-	39,812	-
Transfers out	-	-	(45,000)	(45,000)	-
Change in net assets	(863)	185,758	(8,449)	176,446	14,573
Total net assets at July 1, 2003, restated	4,262,729	1,713,214	408,383		444,885
Total net assets at June 30, 2004	\$ 4,261,866	\$ 1,898,972	\$ 399,934		\$ 459,458
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				3,698	
Change in business-type activities in net assets per government-wide financial statements				\$ 180,144	

The accompanying notes are an integral part of this statement.

City of Montague
STATEMENT OF CASH FLOWS
 Proprietary Funds
 For the year ended June 30, 2004

	Enterprise funds				Internal service funds
	Sewer	Water	Other enterprise funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 392,213	\$ 491,140	\$ 116,586	\$ 999,939	\$ 160,940
Receipts from interfund services provided	2,741	17,346	-	20,087	-
Receipts from intergovernmental operating grants	-	-	37,011	37,011	-
Payments to suppliers	(138,313)	(120,628)	(81,548)	(340,489)	(56,948)
Payments to employees	(85,052)	(131,909)	(22,807)	(239,768)	(24,554)
Internal activity—payments to other funds	5,835	(5,835)	-	-	-
Net cash provided by operating activities	177,424	250,114	49,242	476,780	79,438
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	-	-	(45,000)	(45,000)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Bond issue costs	(35,097)	(22,794)	-	(57,891)	-
Proceeds from capital debt	665,000	555,000	-	1,220,000	-
Capital contributions	-	39,812	-	39,812	-
Purchases of capital assets	(114,229)	(199,153)	-	(313,382)	(44,678)
Principal and interest paid on capital debt	(821,236)	(623,041)	-	(1,444,277)	(11,587)
Increase in deferred revenue	-	160,476	-	160,476	-
Net cash used for capital and related financing activities	(305,562)	(89,700)	-	(395,262)	(56,265)
CASH FLOW FROM INVESTING ACTIVITIES					
Investment income	13,457	7,539	1,380	22,376	2,764
Net increase (decrease) in cash and investments	(114,681)	167,953	5,622	58,894	25,937
Cash and investments at July 1, 2003	848,403	204,079	88,283	1,140,765	119,621
Cash and investments at June 30, 2004	<u>\$ 733,722</u>	<u>\$ 372,032</u>	<u>\$ 93,905</u>	<u>\$ 1,199,659</u>	<u>\$ 145,558</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 48,361	\$ 181,448	\$ 35,171	\$ 264,980	\$ 13,153
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation expense	136,260	75,270	12,386	223,916	66,642
Change in assets and liabilities					
Decrease (increase) in receivables, net	(1,590)	2,467	-	877	-
(Increase) in intergovernmental receivables	(7,779)	-	-	(7,779)	-
(Increase) in due from other funds	(9,333)	(15,168)	-	(24,501)	-
(Increase) in inventories	-	(7,850)	-	(7,850)	-
Increase (decrease) in accounts payables	(3,739)	4,416	(226)	451	(483)
Increase in customer deposits payable	-	300	-	300	-
Increase in accrued expenses	576	431	49	1,056	126
Increase in due to other funds	15,168	9,333	-	24,501	-
Increase (decrease) in deferred revenue	(500)	(533)	1,862	829	-
Net cash provided by operating activities	<u>\$ 177,424</u>	<u>\$ 250,114</u>	<u>\$ 49,242</u>	<u>\$ 476,780</u>	<u>\$ 79,438</u>

The accompanying notes are an integral part of this statement.

City of Montague
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Montague (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Effective July 1, 2003, the City adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the City's activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

GASB Statement No. 16 requires accrual of vacation pay which is earned and vested at the end of the fiscal year. The City was not performing this accrual and has corrected this error. Additionally, the City had a remaining liability due on sewer bonds which was inadvertently omitted in prior years. Fund balances were reduced as a result of these corrections as follows:

Enterprise funds	
Boat Launch Ramp Fund	\$ (167)
Sewer Fund	(42,841)
Water Fund	(5,546)
Internal Service	
Equipment Fund	<u>(960)</u>
	<u>\$ (49,514)</u>

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—CONTINUED

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 and the corrections on an error are as follows:

	<u>City</u>
Fund balance at July 1, 2003—governmental funds	\$ 1,699,487
Capital assets, net	1,742,004
Accrued liabilities	(1,361)
Internal service fund equity	444,885
Long-term liabilities	(345,000)
Compensated absences	<u>(74,619)</u>
Restated net assets at July 1, 2003	<u>\$ 3,465,396</u>

1. Reporting Entity

The City of Montague's (City) is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units

Municipal Building Authority - The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service fund.

White Lake Area Building Board - The City appoints one-third of all Board members of the Building Board and approves its annual budget. The Building Board is reported as a special revenue fund.

Montague Fire District - The City appoints two-sevenths of all Board members to the Fire District and approves its annual budget. The Fire District is reported as a special revenue fund.

Discretely presented component unit

The discretely presented component units reported by the City include the Tax Increment Finance Authority (TIFA) and Downtown Development Authority (DDA). The TIFA and DDA boards are appointed by the City Council, but the boards, after election, operate as separate entities. The boards can authorize and issue debt independent from the City, but the City has in the past pledged the City's full faith and credit in support of the bonds issued. The TIFA and DDA are presented as governmental fund types.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

2. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for money distributed by the State of Michigan for street maintenance.

The Park Reserve Fund accounts for the acquisition of fixed capital assets or construction of major capital projects not being financed by proprietary or trust funds.

The City reports the following two major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for equipment operations to other departments or agencies of the City, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund, of the electric enterprise fund, and of the City's internal service funds are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

4. Assets, Liabilities and Net Assets or Equity

a. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition. All short-term cash surplus are maintained in a cash and investment pool and allocated to each fund based on month-end deposit and investment balances.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool. All investments are reported at fair value.

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

b. Receivables and Payables—Continued

The City bills and collects its own property taxes. Taxes levied on July 1 are due without penalty on or before August 31. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remain the responsibility of the City Treasurer. Since substantially all City property taxes levied are current receivables, tax revenues are recognized when levied.

The 2003 taxable value for real/personal property of the City totaled \$66,391,514 of which \$8,172,641 was captured by the TIFA. The ad valorem taxes levied consisted of 17.0 mills for the City's operating purposes. These amounts are recognized in the respective General Fund and TIFA Fund.

c. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out(FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

d. Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

e. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has elected to capitalize infrastructure assets using the prospective approach, from fiscal year 2004 forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

e. Capital Assets—Continued

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Public domain infrastructure	20
System infrastructure and improvements	10-70
Machinery and equipment	5-20
Access rights	50

f. Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current calendar year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of eight hours per month of employment up to 1,500 hours under the police contract and 1,200 hours for all other full-time City employees. Unused accumulated sick leave up to 30 days is paid at the employees' current rates to employees who resign and 60 days to employees who retire and have completed five continuous years of service with the City. A liability for sick pay is reported in the governmental funds only if the employee retires or resigns by the end of the fiscal year.

g. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

4. Assets, Liabilities and Net Assets or Equity—Continued

h. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

i. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Monday in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

2. Fund Deficit

As of June 30, 2004, the City's Capital Project fund, Parks Reserve and its component unit, TIFA Fund had undesignated modified accrual fund deficits of \$24,034 and \$123,690, respectively. The deficits will be eliminated through future operations and collection of property taxes.

NOTE C—DEPOSITS AND INVESTMENTS

1. Deposits

The City's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of June 30, 2004, the City's and component units' carrying amount of deposits was \$703,702 and the bank balance was \$733,116. Of the bank balance, \$123,366 was covered by federal depository insurance.

2. Investments

As of June 30, 2004, the City's and its component units' investments represented holdings in a municipal investment pool and certificates of deposit with original maturities of longer than six months.

During the year ended June 30, 2004, the City's and its component units' investments were only in this type of investment.

The City's and its component units' investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of June 30, 2004, the City's fair value in those pools and mutual funds were \$759,945.

	Category			Carrying amount	Market value
	<u>1</u>	<u>2</u>	<u>3</u>		
Certificates of Deposit	\$ <u>200,000</u>	\$ <u>1,153,791</u>	\$ <u>-</u>	\$ <u>1,353,791</u>	\$ <u>1,353,791</u>

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE C—DEPOSITS AND INVESTMENTS—Continued

3. Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2004, restricted cash and investments in the Special Revenue, Internal Service and Enterprise funds are restricted as follows:

Special Revenue Fund	
Montague Fire District	
Equipment replacement	\$ 221,786
Enterprise funds	
Water Fund	
Repairs and replacement	53,036
Bond and interest redemption	5,200
Internal Service Fund	8,254
Sewer Fund	
Repairs and replacement	163,753
Bond and interest redemption	<u>4,500</u>
	<u>\$ 456,529</u>

NOTE D—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>	<u>Purpose</u>
Sewer	Water	\$ 9,333	Debt Service
Water	Sewer	<u>15,168</u>	Construction
Total		<u>\$ 24,501</u>	

Due to/from primary government and component units:

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>	<u>Purpose</u>
Primary government - General Fund	Component unit - TIFA	<u>\$ 141,170</u>	Construction

Interfund transfers:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Nonmajor governmental funds	\$ 59,105	Operations
Major Street Fund	General Fund	240,000	Construction
Park Reserve Fund	General Fund	166,859	Construction
Nonmajor governmental funds	General Fund	42,705	Debt Service
Nonmajor governmental funds	Nonmajor governmental funds	<u>6,000</u>	Debt Service
Total		<u>\$ 514,669</u>	

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE E—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004 was as follows:

Primary Government:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 479,202	\$ 322,573	\$ -	\$ 801,775
Capital assets, being depreciated:				
Land improvements	187,197	142,857	-	330,054
Buildings and other improvements	962,020	52,000	-	1,014,020
Machinery and equipment	1,496,395	75,715	53,515	1,518,595
Infrastructure	<u>-</u>	<u>772,408</u>	<u>-</u>	<u>772,408</u>
Total capital assets being depreciated	2,645,612	1,042,980	53,515	3,635,077
Less accumulated depreciation for:				
Land improvements	38,300	9,360	-	47,660
Buildings and other improvements	346,754	24,575	-	371,329
Machinery and equipment	<u>648,535</u>	<u>111,089</u>	<u>46,463</u>	<u>713,161</u>
Total accumulated depreciation	<u>1,033,589</u>	<u>145,024</u>	<u>46,463</u>	<u>1,132,150</u>
Total capital assets, being depreciated, net	<u>1,612,023</u>	<u>897,956</u>	<u>7,052</u>	<u>2,502,927</u>
Governmental activities capital assets, net	<u>\$ 2,091,225</u>	<u>\$ 1,220,529</u>	<u>\$ 7,052</u>	<u>\$ 3,304,702</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 73,200	\$ -	\$ -	\$ 73,200
Capital assets, being depreciated:				
Land improvements	272,067	-	-	272,067
Water and sewer systems	8,675,435	313,382	-	8,988,817
Buildings and other improvements	777,472	-	-	777,472
Machinery and equipment	<u>199,686</u>	<u>-</u>	<u>-</u>	<u>199,686</u>
Total capital assets, being depreciated	<u>9,924,660</u>	<u>313,382</u>	<u>-</u>	<u>10,238,042</u>
Less accumulated depreciation for:				
Land improvements	\$ 64,580	\$ 7,480	\$ -	\$ 72,060
Water and sewer systems	2,907,868	160,758	-	3,068,626
Buildings and other improvements	358,353	18,963	-	377,316
Machinery and equipment	<u>176,552</u>	<u>8,753</u>	<u>-</u>	<u>185,305</u>
Total accumulated depreciated	<u>3,507,353</u>	<u>195,954</u>	<u>-</u>	<u>3,703,307</u>
Total capital assets, being depreciated, net	<u>6,417,307</u>	<u>117,428</u>	<u>-</u>	<u>6,534,735</u>

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE E—CAPITAL ASSETS—Continued

Primary Government—Continued

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>
Business-type activities—Continued				
Business-type activities capital assets, net	\$ <u>6,490,507</u>	\$ <u>117,428</u>	\$ <u>-</u>	\$ <u>6,607,935</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:

General government	\$ 32,147
Public safety	34,145
Public works	2,127
Culture and recreation	9,963
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>66,642</u>

Total depreciation expense - governmental activities \$ 145,024

Business-type activities:

Sewer	\$ 108,298
Water	75,270
Other enterprise funds	<u>12,386</u>

Total depreciation expense - business-type activities \$ 195,954

NOTE F—BOND ISSUANCE COSTS

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
Bond issuance costs:				
Sewer				
Issuance	\$ -	\$ 34,161	\$ -	\$ 34,161
Discount	-	1,884	-	1,884
Water				
Issuance	-	20,764	-	20,764
Discount	<u>-</u>	<u>2,456</u>	<u>-</u>	<u>2,456</u>
Total bond issuance cost	<u>-</u>	<u>59,265</u>	<u>-</u>	<u>59,265</u>

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE F—BOND ISSUANCE COSTS—Continued

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2004</u>
Less amortization:				
Sewer over 152 months	\$ -	\$ 949	\$ -	\$ 949
Water over 218 months	-	426	-	426
	-	1,375	-	1,375
Total bond issuance costs, net of accumulated amortization	\$ -	\$ 57,890	\$ -	\$ 57,890

Amortization

Amortization expense has been charged to the following functions:

Sewer	\$ 949
Water	426
	<u>\$ 1,375</u>

NOTE G—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue, which represented unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Special assessments not yet due	\$ 4,317	\$ -
Total deferred/unearned revenue for governmental funds	<u>\$ 4,317</u>	<u>\$ -</u>

NOTE H—LONG-TERM DEBT

Summary of Changes in Long-Term Liabilities

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2004.

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>	<u>Due within one year</u>
Governmental activities:					
Transportation bonds	\$ 345,000	\$ -	\$ 30,000	\$ 315,000	\$ 35,000
Capital leases	21,139	-	10,244	10,895	10,895
Compensated absences	47,092	3,757	-	50,849	-
Governmental activity Long-term liabilities	<u>\$ 413,231</u>	<u>\$ 3,757</u>	<u>\$ 40,244</u>	<u>\$ 376,744</u>	<u>\$ 45,895</u>

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2004</u>	Due within <u>one year</u>
Business-type activities:					
Revenue bonds	\$ <u>1,444,955</u>	\$ <u>1,220,000</u>	\$ <u>1,298,555</u>	\$ <u>1,366,400</u>	\$ <u>97,718</u>
Governmental activities:					
Transportation bonds:					
\$490,000 Michigan Transportation Fund bonds of 1997 due in annual installments of \$35,000 to \$50,000 through June 2012; plus interest at rates varying from 4.9% to 5.4%					\$ 315,000
Capital lease agreements:					
\$51,413 Equipment Capital Lease due in annual installments of \$11,600 through October 2004; including interest at 6.36%					<u>10,895</u>
Compensated absences					325,895
					<u>50,849</u>
					\$ <u>376,744</u>
Business-type activities:					
Revenue bonds:					
\$1,035,000 Sewer System revenue bonds of 1989, remaining \$40,000 installment due November 2004; plus interest at 7.5%					\$ 40,000
\$555,000 Water Supply System refunding bonds of 2004 due in annual installments of \$15,000 to \$45,000 through May 2022; plus interest at rates varying from 2% to 5%					555,000
\$665,000 Sewage Disposal System refunding bonds of 2004 due in annual installments of \$15,000 to \$65,000 through November 2016; plus interest at rates varying from 2% to 4%					665,000

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE H—LONG-TERM DEBT—Continued

Summary of Changes in Long-Term Liabilities—Continued

	June 30, 2004
Business-type activities:	
Revenue bonds:	
Muskegon County Wastewater Management System No. 1 contractual obligation of 1996 due in annual installments of \$25,200 through July 2005; plus interest at 5.7%	\$ 25,232
Muskegon County Wastewater Management System No. 1 refunding bond of 2002 due in annual installments of \$2,486 to \$26,476 through July 2008; plus interest rates varying from 2.25% to 5%	81,168
	<u>\$ 1,366,400</u>

The Internal Service Fund predominantly serves the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end \$270 of the Internal Service Fund's compensated absences are included in the above amounts.

The general obligation bonds are backed by the full faith and credit of the City.

The 1996 and 2002 County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 50 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

The 1996 and 2002 County of Muskegon wastewater contracts payable and the 2000 Water Supply revenue bonds are payable solely from the net revenues of the sewer and water supply directing the City to create funds restricted for use in the construction project and in debt service. Assets so restricted are detailed in note C3.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2004.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2004 follows:

Year ending June 30	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2005	\$ 45,895	\$ 17,000	\$ 97,718	\$ 55,300
2006	35,000	14,500	106,500	129,100
2007	35,000	12,800	116,200	41,100
2008	35,000	11,000	106,000	38,000
2009	40,000	9,300	80,000	34,800
2010-2014	185,849	14,993	415,000	137,700
2015-2019	-	-	315,000	65,500
2020-2024	-	-	129,982	13,159
Total	<u>\$ 376,744</u>	<u>\$ 79,593</u>	<u>\$ 1,366,400</u>	<u>\$ 514,659</u>

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE I—OTHER INFORMATION

1. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

2. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

3. Post-Retirement Health Care

The City has agreed to provide post-retirement health care to certain full-time employees after they reach age 55 and have 20 years of service or age 60 and have 10 years of service. The City will pay between 60 percent and 100 percent of the premium depending on the employee's age and length of service.

As of year end, there were two retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2004, the City's post-retirement health care cost under the Plan was approximately \$16,200.

4. Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

5. Jointly Governed Organization

The City, in conjunction with other governmental entities, created the White Lake Solid Waste Authority (WLSWA) to operate a solid waste transfer station and the White Lake Ambulance Authority (WLAA) to provide ambulance services.

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN

Plan Description. The City of Montague is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Montague. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Montague
8778 Ferry Street
Montague, MI 49437

Funding Policy. City employees are required to contribute 5 percent to the Plan. The City is required to contribute at an actuarially-determined rate depending upon position from 0.0 to 5.41 percent of covered wages.

Annual Pension Cost. For the year ended June 30, 2004, the City's annual pension cost was approximately \$30,600 which the City contributed. The required contribution was determined as part of the December 31, 2001 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Three-Year Trend Information

(Dollars amounts in thousands)

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
6/30/02	\$ -	100%	\$ -
6/30/03	37	100	-
6/30/04	31	100	-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

(Dollars amounts in thousands)

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/02	\$1,334	\$1,287	\$ (47)	104%	\$ 593	(8)%
12/31/03	1,394	1,728	334	81	662	50
12/31/04	1,538	1,905	367	81	721	51

City of Montague
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED
June 30, 2004

NOTE K—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 14 percent of General Fund revenues.

The City's Water Supply Fund has a significant economic dependence on a local corporation that is a major taxpayer and user of water services. During the year ended June 30, 2004, the corporation's billings for water usage approximated 19 percent of total billings in the Water Supply Fund and 29 percent for property taxes.

NOTE L—SUBSEQUENT EVENT

During the next fiscal year the City anticipates the construction of a major street project. Expected costs are approximately \$212,000. The General Fund will fund the project.

REQUIRED SUPPLEMENTAL INFORMATION

City of Montague
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE

General Fund
For the year ended June 30, 2004

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 1,221,900	\$ 1,221,900	\$ 1,218,684	\$ (3,216)
Licenses and permits	14,430	14,430	15,576	1,146
Intergovernmental revenues				
State	249,515	249,515	230,720	(18,795)
Local	351,300	351,300	330,980	(20,320)
Special assessments	345	345	12,345	12,000
Charges for services	69,572	69,572	65,221	(4,351)
Fines and forfeitures	10,000	10,000	7,752	(2,248)
Investment earnings	28,559	28,559	29,752	1,193
Other	24,653	24,653	19,861	(4,792)
Total revenues	<u>1,970,274</u>	<u>1,970,274</u>	<u>1,930,891</u>	<u>(39,383)</u>
EXPENDITURES				
Current				
General government	502,481	504,230	456,675	47,555
Public safety	584,930	575,930	558,506	17,424
Public works	92,669	92,669	72,187	20,482
Community and economic development	7,400	7,400	833	6,567
Culture and recreation	114,483	120,943	110,232	10,711
Other governmental functions	34,448	39,948	35,239	4,709
Capital outlay	431,870	426,870	396,169	30,701
Total expenditures	<u>1,768,281</u>	<u>1,767,990</u>	<u>1,629,841</u>	<u>138,149</u>
Excess (deficiency) of revenues over expenditures	<u>201,993</u>	<u>202,284</u>	<u>301,050</u>	<u>98,766</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	60,000	60,000	59,105	(895)
Transfers out	<u>(358,705)</u>	<u>(437,455)</u>	<u>(449,565)</u>	<u>(12,110)</u>
Total other financing sources and uses	<u>(298,705)</u>	<u>(377,455)</u>	<u>(390,460)</u>	<u>(13,005)</u>
Net change in fund balances	<u>\$ (96,712)</u>	<u>\$ (175,171)</u>	<u>(89,410)</u>	<u>\$ 85,761</u>
Fund balances at July 1, 2003			889,157	
Fund balances at June 30, 2004			<u>\$ 799,747</u>	

City of Montague
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE

Major Street Fund
For the year ended June 30, 2004

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues				
Federal	\$ 398,740	\$ 398,740	\$ 359,038	\$ (39,702)
State	164,243	164,243	233,870	69,627
Charges for services	200	200	29	(171)
Investment earnings	1,500	1,500	1,414	(86)
Total revenues	<u>564,683</u>	<u>564,683</u>	<u>594,351</u>	<u>29,668</u>
EXPENDITURES				
Current				
Public works	122,399	122,399	93,916	28,483
Other governmental functions	10,627	10,627	11,437	(810)
Capital outlay	688,078	693,078	640,456	52,622
Total expenditures	<u>821,104</u>	<u>826,104</u>	<u>745,809</u>	<u>80,295</u>
Excess (deficiency) of revenues over expenditures	(256,421)	(261,421)	(151,458)	109,963
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>240,000</u>	<u>240,000</u>	<u>240,000</u>	<u>-</u>
Net change in fund balances	\$ <u>(16,421)</u>	\$ <u>(21,421)</u>	88,542	\$ <u>109,963</u>
Fund balances at July 1, 2003			84,281	
Fund balances at June 30, 2004			<u>\$ 172,823</u>	

OTHER SUPPLEMENTAL INFORMATION

City of Montague
BALANCE SHEET
Nonmajor Governmental Funds
June 30, 2004

	Total nonmajor governmental funds	Special Revenue							Debt Service	Permanent Fund
		Local Streets	Small Cities Grant Revolving	White Lake Area Building Board	Montague Fire District	Public Projects	Municipal Building Authority	Employee Benefit Plan		Cemetery Perpetual Care
ASSETS										
Cash and investments	\$ 530,641	\$ 100,536	\$ 65,304	\$ 55,906	\$ 49,531	\$ 14,855	\$ -	\$ 70,526	\$ 9,461	\$ 164,522
Receivables	115,074	-	115,074	-	-	-	-	-	-	-
Due from other governmental units	10,836	10,836	-	-	-	-	-	-	-	-
Prepaid items	10,298	-	-	-	10,298	-	-	-	-	-
Restricted assets	221,786	-	-	-	221,786	-	-	-	-	-
Total assets	<u>\$ 888,635</u>	<u>\$ 111,372</u>	<u>\$ 180,378</u>	<u>\$ 55,906</u>	<u>\$ 281,615</u>	<u>\$ 14,855</u>	<u>\$ -</u>	<u>\$ 70,526</u>	<u>\$ 9,461</u>	<u>\$ 164,522</u>
LIABILITIES AND FUND BALANCES										
Liabilities										
Accounts payable	\$ 19,848	\$ 280	\$ -	\$ 15,762	\$ 3,806	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	16,274	1,075	-	367	14,832	-	-	-	-	-
Total liabilities	36,122	1,355	-	16,129	18,638	-	-	-	-	-
Fund balances										
Reserved for:										
Appropriations	3,058	-	-	3,058	-	-	-	-	-	-
Prepaid items	10,298	-	-	-	10,298	-	-	-	-	-
Notes receivable	115,074	-	115,074	-	-	-	-	-	-	-
Debt service	9,461	-	-	-	-	-	-	-	9,461	-
Replacement	180,616	-	-	-	180,616	-	-	-	-	-
Perpetual care	164,522	-	-	-	-	-	-	-	-	164,522
Designated for long-term planning	41,170	-	-	-	41,170	-	-	-	-	-
Designated for employee benefits	70,526	-	-	-	-	-	-	70,526	-	-
Unreserved	257,788	110,017	65,304	36,719	30,893	14,855	-	-	-	-
Total fund balances	<u>852,513</u>	<u>110,017</u>	<u>180,378</u>	<u>39,777</u>	<u>262,977</u>	<u>14,855</u>	<u>-</u>	<u>70,526</u>	<u>9,461</u>	<u>164,522</u>
Total liabilities and fund balances	<u>\$ 888,635</u>	<u>\$ 111,372</u>	<u>\$ 180,378</u>	<u>\$ 55,906</u>	<u>\$ 281,615</u>	<u>\$ 14,855</u>	<u>\$ -</u>	<u>\$ 70,526</u>	<u>\$ 9,461</u>	<u>\$ 164,522</u>

City of Montague
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Nonmajor Governmental Funds
For the year ended June 30, 2004

	Total nonmajor governmental funds	Local Streets	Small Cities Grant Revolving	White Lake Building Board	Special Revenue Montague Fire District	Public Projects	Municipal Building Authority	Employee Benefit Plan	Debt Service	Permanent Fund Cemetery Perpetual Care
REVENUES										
Licenses and permits	\$ 63,208	\$ -	\$ -	\$ 63,208	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues - state	73,778	73,778	-	-	-	-	-	-	-	-
Charges for services	181,251	120	-	11,923	151,248	12,600	-	-	-	5,360
Investment earnings	17,301	1,869	7,883	934	1,948	170	-	1,275	339	2,883
Other	750	501	-	-	249	-	-	-	-	-
Total revenues	336,288	76,268	7,883	76,065	153,445	12,770	-	1,275	339	8,243
EXPENDITURES										
Current										
Public safety	90,948	-	-	-	90,948	-	-	-	-	-
Public works	139,431	52,185	6,625	80,621	-	-	-	-	-	-
Other governmental functions	4,560	4,560	-	-	-	-	-	-	-	-
Debt service										
Principal	30,000	-	-	-	-	-	-	-	30,000	-
Interest and fees	18,205	-	-	-	-	-	-	-	18,205	-
Capital outlay	8,461	-	-	-	8,461	-	-	-	-	-
Total expenditures	291,605	56,745	6,625	80,621	99,409	-	-	-	48,205	-
Excess of revenues over (under) expenditures	44,683	19,523	1,258	(4,556)	54,036	12,770	-	1,275	(47,866)	8,243
OTHER FINANCING SOURCES (USES)										
Operating transfers in	48,705	-	-	-	-	-	-	-	48,705	-
Operating transfers out	(20,104)	-	-	-	-	(6,000)	(11,221)	-	-	(2,883)
Total other financing sources (uses)	28,601	-	-	-	-	(6,000)	(11,221)	-	48,705	(2,883)
Net change in fund balances	73,284	19,523	1,258	(4,556)	54,036	6,770	(11,221)	1,275	839	5,360
Fund balances at July 1, 2003	779,229	90,494	179,120	44,333	208,941	8,085	11,221	69,251	8,622	159,162
Fund balances at June 30, 2004	\$ 852,513	\$ 110,017	\$ 180,378	\$ 39,777	\$ 262,977	\$ 14,855	\$ -	\$ 70,526	\$ 9,461	\$ 164,522

City of Montague
COMBINING STATEMENT OF NET ASSETS
 Nonmajor Enterprise Funds
 June 30, 2004

ASSETS

	Enterprise Funds		
	Total nonmajor enterprise funds	Boat launching ramp	Campground
CURRENT ASSETS			
Cash and investments	\$ 93,905	\$ 47,785	\$ 46,120
NONCURRENT ASSETS			
Capital assets			
Land and improvements	290,422	120,890	169,532
Systems	3,951	-	3,951
Buildings	116,344	116,344	-
Less accumulated depreciation	(82,317)	(71,468)	(10,849)
Total noncurrent assets	328,400	165,766	162,634
Total assets	422,305	213,551	208,754

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES			
Accounts payable	1,358	160	1,198
Accrued liabilities	97	97	-
Deferred revenue	20,479	-	20,479
Compensated absences, due within one year	167	167	-
Total current liabilities	22,101	424	21,677
NONCURRENT LIABILITIES			
Compensated absences, less amounts due within one year	270	270	-
Total liabilities	22,371	694	21,677
NET ASSETS			
Invested in capital assets, net of related debt	328,400	165,766	162,634
Unrestricted	71,534	47,091	24,443
Total net assets	\$ 399,934	\$ 212,857	\$ 187,077

City of Montague
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 Nonmajor Enterprise Funds
 For the year ended June 30, 2004

	Total nonmajor enterprise funds	Boat launching ramp	Campground
REVENUES			
Intergovernmental revenues - state	\$ 37,011	\$ 37,011	\$ -
Charges for services	<u>114,724</u>	<u>36,052</u>	<u>78,672</u>
Total operating revenues	151,735	73,063	78,672
OPERATING EXPENSES			
Administration	22,856	3,365	19,491
Operations	81,322	53,022	28,300
Depreciation and amortization	<u>12,386</u>	<u>6,962</u>	<u>5,424</u>
Total operating expenses	<u>116,564</u>	<u>63,349</u>	<u>53,215</u>
Operating income	35,171	9,714	25,457
NONOPERATING REVENUES			
Investment income	<u>1,380</u>	<u>464</u>	<u>916</u>
Income before contributions and transfers	36,551	10,178	26,373
Transfers out	<u>(45,000)</u>	<u>-</u>	<u>(45,000)</u>
Change in net assets	(8,449)	10,178	(18,627)
Total net assets at July 1, 2003, restated	<u>408,383</u>	<u>202,679</u>	<u>205,704</u>
Total net assets at June 30, 2004	<u><u>\$ 399,934</u></u>	<u><u>\$ 212,857</u></u>	<u><u>\$ 187,077</u></u>

City of Montague
STATEMENT OF CASH FLOWS
Nonmajor Enterprise Funds
For the year ended June 30, 2004

	Enterprise Funds		
	Total nonmajor enterprise funds	Boat launching ramp	Campground
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 116,586	\$ 36,052	\$ 80,534
Receipts from intergovernmental operating grants	37,011	37,011	-
Payments to suppliers	(81,548)	(54,216)	(27,332)
Payments to employees	(22,807)	(3,316)	(19,491)
Net cash provided by (used for) operating activities	49,242	15,531	33,711
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(45,000)	-	(45,000)
CASH FLOW FROM INVESTING ACTIVITIES			
Investment income	1,380	464	916
Net increase (decrease) in cash and investments	5,622	15,995	(10,373)
Cash and investments at July 1, 2003	88,283	31,790	56,493
Cash and investments at June 30, 2004	<u>\$ 93,905</u>	<u>\$ 47,785</u>	<u>\$ 46,120</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities			
Operating income	\$ 35,171	\$ 9,714	\$ 25,457
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation expense	12,386	6,962	5,424
Change in assets and liabilities			
Increase (decrease) in accounts payables	(226)	(1,194)	968
Increase in deferred revenue	1,862	-	1,862
Increase in accrued expenses	49	49	-
Net cash provided by operating activities	<u>\$ 49,242</u>	<u>\$ 15,531</u>	<u>\$ 33,711</u>